

October 18, 2002

DOCKET	
02-IEP-1	
DATE	OCT 18 2002
RECD.	OCT 18 2002

Docket No. 02-IEP-01
Docket Unit, MS-4
California Energy Commission
1516 Ninth Street
Sacramento CA 95814-5512

Via: docket@energy.state.ca.us

Dear Sirs:

Pursuant to the California Energy Commission's Notice of Committee Hearing on the 2003 Integrated Energy Policy Report proceeding (Docket No. 02-IEP-01) issued on October 9, 2002, please find attached an original copy of Pacific Gas & Electric Company's written comments.

Pacific Gas & Electric Company has also provided a copy of these comments electronically, per the Notice of Committee Hearing.

Sincerely,

WILLIAM TOM

William Tom
Manager, Electric Portfolio Planning and Analysis
Pacific Gas & Electric Company

Attachment

PG&E Company Comments
California Energy Resources Conservation and Development
Commission
2003 Integrated Energy Policy Report
Docket # 02-IEP-01
October 18, 2002

Overview

Pacific Gas & Electric Company (PG&E) appreciates the opportunity to provide written comments on the California Energy Resources Conservation and Development Commission's ("California Energy Commission" or "CEC") Informational Proceedings and Preparation of the 2003 Integrated Energy Policy Report. PG&E looks forward to working with the Commission and all parties in this proceeding to effectuate the development of the 2003 Integrated Energy Policy Report (Report).

The CEC Staff Proposal for Consideration at October 22, 2002 Hearing of October 9, 2002 provides "a preliminary list of issues to be presented in the *Integrated Energy Policy Report* and its subsidiary documents." Below PG&E provides comment on the Staff Proposal, including comments on the Report development process, integrating the Report with other on-going efforts, and the application of the Report to all energy entities in the State. Finally, PG&E provides specific recommendations on the issues Staff proposes for inclusion.

Report Development Process

The energy industry in California, and particularly the electricity industry, has changed substantially in recent years, and will continue to evolve for the foreseeable future as the California energy market structure changes. Investor-owned utilities (IOUs) no longer own most of the resources used to meet their customer requirements, rather they contract for the bulk of their power requirements with independent generating entities, bilateral contracts, and purchases facilitated through the California Independent System Operator (CAISO). Indeed, PG&E anticipates that in 2003, upon emergence from bankruptcy, it will have a CPUC-regulated distribution company and FERC-regulated transmission and generation companies. Further, under deregulation the energy prices in California have become increasingly interdependent with regional energy markets, so changes external to California will impact California energy consumers. Finally, there is no central authority regulating or coordinating the markets. While IOUs continue to be regulated by the California Public Utilities Commission (CPUC), this represents only a portion of California energy demand customers. Similarly the California (CAISO), the electric grid operator for much of California, does not control the entire transmission and electric generation and delivery in the state. Given this fragmentation of the industry, PG&E offers the following general comments for Staff to consider as it finalizes the Scope of the Report.

1. CEC Should Coordinate the Report Development with Other Agencies

PG&E encourages the CEC to work closely with other state agencies and the CAISO in preparing the Report, and coordinate with other agencies to address the issues included in the Staff Proposal. PG&E notes that SB1389 requires CEC to consult with various entities in developing the IEP, and initiatives currently underway by other state agencies and the CAISO overlap with proposed Report issues. Without complete coordination of efforts between CEC and these entities the Report may ultimately provide conflicting conclusions and recommendations.

Specifically, the Report development should be coordinated with the on-going efforts:

Resource Procurement - CPUC is currently proposing IOU-procurement processes and the CEC analysis should complement, not conflict, with this. Further, the CEC should coordinate with the CPA on efforts to develop renewable energy, distributed generation, interruptible and demand-response programs.

Resource Adequacy – The CAISO Reliability Adequacy Working Group is developing a proposal for reserve requirements in the California electric market, and the California Power Authority (CPA) currently has a Rulemaking process on the same issue. This issue has been broached in the current CPUC utility procurement proceeding. The CEC analysis should respect this and develop any policies on reserves with the working group, the CPA Rulemaking, and the CPUC.

Market Design - CAISO is currently redesigning the structure of the California electric market, and the CEC analyses should assume that all elements of the CAISO Market Design 2002 (MD02) are fully implemented.

Market and Transmission Analyses – As part of the MD02 implementation, the CAISO is developing new electric market simulation tools and collecting data to simulate the future electric market in California. Similarly, as the primary California transmission grid operator, the CAISO performs ongoing analyses of the transmission grid in California to determine future transmission requirements. Both of these efforts require detailed modeling of the electric system using simulation models and copious amounts of data on electric demand, supply and other variables. PG&E stresses that the CEC, in developing the projections of future California electric resource requirements, energy and transmission adequacy, and energy prices, should use identical models and data, if not simply adopt the CAISO analyses. PG&E is concerned that if the CEC uses different modeling methodologies for electric energy market and transmission simulations than is used by the CAISO the results may be vastly dissimilar, and policies developed using these disparate analyses may be inconsistent. Further, should CEC impose different data requirements for the Report than is required for the CAISO analyses, this will be extremely burdensome to energy suppliers and load serving entities.

2. Report Must be Equally Applicable to all Energy Industry Participants

As discussed above the California energy industry today is very fractured, composed of many disparate suppliers and Load Serving Entities (LSEs) with different interests. All conclusions and recommendations provided in the Report must recognize this and be applicable the entire California energy industry and not just binding on those entities that participate in the CAISO market and/or regulated by the CPUC.

3. Data Requirements Must be Equally Applicable to All Entities

Public Resource Code Section 25216 requires the Commission, in undertaking the assessment of energy demand and supply analyses, to “Collect from electric utilities, gas utilities, and fuel producers and wholesalers and other sources forecasts of future supplies and consumption of all energy forms, including electricity, and of future energy or fuel production and transporting facilities to be constructed...”. In order to properly effectuate the requirements of PRC 25216, PG&E understands this will require substantial information. That said, information requirements must be equally applicable to all energy industry participants. All energy providers and load serving entities, be they CPUC regulated or not, CAISO participants or not, should be subject to identical requirements. Further, since many of the market participants that will be required to provide data are competitors, CEC should use publicly available data whenever possible, and any proprietary data required should be provided to the CEC under strict confidentiality agreement(s).

Trends and Outlooks – Electricity

The Staff Proposal provides for electricity demand, supply, and price outlooks for 2003-2013. The Staff Proposal is silent, however, on how this will be accomplished. As discussed above PG&E strongly encourages the CEC to work in conjunction with the CAISO to complete the Outlook, and to share tools and data with the CAISO to accomplish this.

The CAISO Market Design 2002 proposal (MD02) represents a fundamental shift in the operation of the California electric market. It has been partially approved by the Federal Energy Regulatory Commission (FERC), with full approval expected, and the approved portions are currently being implemented by the CAISO. Given this, to be meaningful and useful for policy development the Outlook should be based on the full implementation of MD02.

Issue 1: Infrastructure and Constraint Implications

Based on the results from the Trends and Outlooks, PG&E recommends the Report should assess the drivers and constraints affecting generation supply additions, the sustainable demand reduction from energy efficiency programs, and provide detailed assessment of potential renewable resource development in California by region within the state. The Report should discuss technology, reliability, cost-effectiveness and level of commercial development for generation supply additions, new energy efficiency, renewable resources and demand response programs.

Issue 2: Adequacy, Reliability and Risk

The Report should review the current transmission siting process to ensure California is not disadvantaged in its ability to stimulate infrastructure investment. Specifically, the report should address the CPUC, CEC and CAISO roles and responsibility for transmission assessment, transmission line siting, and cost recovery for new transmission facilities.

Issue 3: Prices, Volatility and Consumer Response

Regarding the development of demand-response programs, including distributed generation, the Report should discuss the (1) reliability and cost-effectiveness of the technologies available to reduce demand, (2) the benefits, costs, barriers subsidies and potential market penetration for distributed generation and demand-responsive programs and (3) potential environmental impacts of implementing these programs. The Report should also provide a clear, coordinated policy on how demand-response and distributed generation consumers will interact in the power market (i.e. as utility customer or independent market participant).